

competitive range of vehicle types and sizes. Market and political considerations place Canada at a disadvantage compared to the U.S. in attracting Japanese investment. However, the Canadian industry is well situated within the North American industry context from an economic perspective. Recent announcements of investments by AMC and GM indicate a high degree of confidence in Canada on the part of the North American producers. Honda has also announced an investment of \$100 million for an assembly facility in Canada. Other Japanese manufacturers are evaluating the feasibility of investing in Canada.

A factor which may influence investment decisions will be the Canadian UAW's decision to seek autonomy from its U.S. counterpart. However, it is too early to call what effect this action will have on the perceptions of the automakers towards Canada. The initial business reaction has been generally negative, and General Motors has advised the government that it is reviewing its Canadian operations in light of concerns about the impact on its U.S. operations of another strike in Canada. The real first test of the impact of the UAW split will come in the third quarter of 1985 when the Chrysler contract is renegotiated.

5. Competitiveness Assessment

With the North American automotive industry currently enjoying record levels of sales and profits following its recovery from the recession, it is easy enough to overlook the storm clouds on the horizon. Canada and the U.S. remain vulnerable to competitive pressures at both ends of the market - at the low end from Japanese and emerging low-cost offshore producers such as Korea, and at the high end from Europe, due to the strength of the dollar. This import pressure, combined with virtually no market growth and substantial incremental Japanese assembly investment in North America, will result in an extremely competitive market situation toward the end of the eighties.

The extent of the competition will depend in large measure on U.S. and Canadian government import policies with respect to Japanese and LDC vehicles. Regardless of the import regimes in place, the huge Japanese cost advantage and growing innovative capability will enable them to market aggressively against North American competition to the point that virtually all surplus capacity will probably be borne by the Big 4. Surplus capacity by 1988-1990 is likely to be in the order of two million passenger cars, or up to a quarter of current capacity. This translates into ten to fifteen assembly plants at risk in North America, invariably the oldest and least efficient.

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Critical requirements for Canada in the next few